

State of California  
Department of Motor Vehicles

**Report to the Legislature  
on the  
2006/2007 REAL ID Act  
Planning Expenditures**

February 9, 2007

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**In Accord with 2006 Budget Act (AB 1801, Chapter 47, Statute 2006)**

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## Preface

This *Report to the Legislature on the 2006/2007 REAL ID Act Planning Expenditures* is one of two reports required under Budget Act language contained in the 2006 Budget Act (AB 1801, Chapter 47, Statute 2006) for the appropriation of \$18.8 million to the Department of Motor Vehicles (DMV).<sup>1</sup>

Item 2740-001-0044 requires the DMV to submit a report to the Joint Legislative Budget Committee on the expenditure of the \$18.8 million appropriated. Specifically, of the \$18.8 million appropriated, \$9.4 million shall be available for the following activities:

1. Enhance the department's internet capacity to better serve the public, to reduce required visits to department field offices for non-driver license related transactions, and to enhance the security of the department's internet-based programs; and
2. Planning for program change and upgrading information technology (IT) systems—including security enhancements to protect the privacy and integration of data—to accommodate new requirements on the department.

The 2006 Budget Act language further provides that the balance of \$9.4 million shall be available for expenditure after January 1, 2007, only after submittal of a report, and a 30-day review by the Joint Legislative Budget Committee on the expenditures for the initial \$9.4 million and the planned expenditures for the remaining \$9.4 million pursuant to the above prescribed activities. As required, this report provides:

- A description of the expenditures made.
- The milestones achieved (accomplishments) by the DMV.
- The planned expenditures from the funds made available to the DMV.

The United States House of Representatives Bill 1268, also known as the REAL ID Act<sup>2</sup>, was signed into law on May 11, 2005. The implementation date for the Act for all states is May 11, 2008. The Act is intended to strengthen the security of driver license and identification (DL/ID) cards issued by every state. The Act sets minimum standards for the creation and issuance of the driver license and identification cards that will be acceptable for official federal purposes. Official purposes include, but are not limited to, accessing federal facilities, boarding federally regulated commercial aircraft, entering nuclear power plants, and any other purposes the Secretary of the United States (U.S.) Department of Homeland

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<sup>1</sup> The *Report to the Legislature on the Status of the REAL ID Act, December 15, 2006*, has been submitted under separate cover to the Joint Legislative Budget Committee and transportation policy committees of the Assembly and Senate. The *Report to the Legislature on the Status of the REAL ID Act* responded to the status of the federal REAL ID regulations and the REAL ID planning and preparation efforts in anticipation of receiving the promulgated federal regulations.

<sup>2</sup> The bill's actual title is Emergency Supplemental Appropriations Act for Defense, the Global War on Terror, and Tsunami Relief, 2005. Only Title II (§§ 201 – 207) of that bill is known as "The Real ID Act".

Security determines. Any DL/ID card issued by a state that does not comply with the REAL ID Act requirements would not be acceptable for the purposes listed above.

The DMV recognizes that the age and complexity of its IT infrastructure limits its ability to effectively and efficiently respond to the demands expected in the future. The DMV plans to expend the \$18.8 million appropriation to enhance its IT systems and increase system capacity in order to be able to accommodate new system requirements and future increased workload associated with the REAL ID Act regulations.

While the final federal regulations have not yet been promulgated, California will continue with its planning and preparation efforts in anticipation of the final regulations being published. Once the regulations are promulgated, the DMV will be in a better position to accurately quantify resource needs for fiscal year (FY) 2007/2008.

This report covers the expenditures made from July 1, 2006 through December 31, 2006, and the corresponding accomplishments. The report also covers the anticipated expenditures from January 1, 2007 through June 30, 2007, and the planned accomplishments. As demonstrated in this report, the DMV is:

- Actively planning and preparing for the REAL ID Act as prescribed by the 2006 Budget Act.
- Accomplishing improvements that position the department to enhance its IT infrastructure systems, allowing for a more seamless integration of other databases, streamlining service delivery processes, and increasing capacity and productivity in the DMV field offices.
- Spending the \$18.8 million appropriation received by the DMV for FY 2006/2007 for REAL ID planning and preparation activities. By June 30, 2007, the DMV will have expended and encumbered approximately \$18.3 million. A one-page Summary of Expenditures is shown on page iv.

## Summary of Expenditures

The details of the accomplishments that correspond to these expenditures are shown on pages 4 – 8 of this report.

<b>Funded Activities</b>	<b>Original Appropriation</b>	<b>Expenditures July 1, 2006 through December 31, 2006<sup>3</sup></b>	<b>Expenditures January 1, 2007 through June 30, 2007</b>	<b>Total Expenditures</b>
1. Establish an organization responsible for all DMV activities related to REAL ID	\$2,600,000	\$1,677,500	\$830,800	\$2,508,300
2. Prepare for the known components and impacts of REAL ID	\$1,000,000	\$316,000	\$612,500	\$928,500
3. Develop enhanced system and system support capacity to effectively prepare for future provisions of REAL ID as they are known	\$1,200,000	\$268,100	\$616,500	\$884,600
4. Prepare California DMV for change in workloads	\$14,000,000	\$503,700	\$13,491,600	\$13,995,300 <sup>4</sup>
<b>Totals</b>	<b>\$18,800,000</b>	<b>\$2,765,300</b>	<b>\$15,551,400</b>	<b>\$18,316,700</b>

<sup>3</sup> These numbers are comprised of actual expenditures for July – October 2006 as reported by the state financial system and State Controller's Office. November and December 2006 are expenditures that are not yet recorded on the state financial system.

<sup>4</sup> The cost of enhancing the web site infrastructure is off-set by a savings of 32.5 PY, equaling \$1,387,809, as shown in the Department of Motor Vehicles May Revise 2006-2007 Support Budget.

## Background

### *REAL ID Act – California's Efforts*

Implementation of the Act presents significant challenges to all states. The National Governors Association, the National Conference of State Legislatures, and the American Association of Motor Vehicle Administrators recently published a joint report<sup>1</sup> that estimates the overall national cost to implement the REAL ID Act will be over \$11 billion.

The DMV received an \$18.8 million appropriation for fiscal year (FY) 2006/2007 to begin the planning, programming, information technology (IT) infrastructure development and associated ongoing costs necessary for implementing the REAL ID Act requirements by May 11, 2008. Item 2740-001-0044, of the 2006 Budget Act (AB1801, Chapter 47, Statute 2006), requires that two reports be submitted to the Legislature. The first report, submitted on December 15, 2006, is the *Report to the Legislature on the Status of the REAL ID Act*, which describes the status of California's REAL ID Act planning and preparation efforts to date.

The second required report is the *Report to the Legislature on the 2006/2007 REAL ID Act Planning Expenditures* for the \$18.8 million appropriation. The 2006 Budget Act specifies \$9.4 million shall be available to expend for prescribed IT capacity increases and IT security enhancements to protect the privacy and integrity of the data. The balance of \$9.4 million shall be available for expenditure, only after submittal of this report, and a subsequent 30-day review by the Joint Legislative Budget Committee on the expenditures for the initial \$9.4 million and the planned expenditures for the remaining \$9.4 million pursuant to the above prescribed activities. As required, this report provides:

- A description of the expenditures made.
- The milestones achieved (accomplishments) by the DMV.
- The planned expenditures from the funds made available to the DMV.

California has proactively pursued REAL ID Act funding from the federal government. Specifically, correspondence regarding the costs to the states of the REAL ID Act and requests for federal funding were sent by Governor Arnold Schwarzenegger to the United States Congress.<sup>2</sup> Moreover, in October 2006, DMV's Director George Valverde requested reimbursement from the U.S. Department of Homeland Security of the \$18.8 million DMV appropriation for REAL ID Act planning activities. The U.S. Department of Homeland Security response to DMV, dated December 1, 2006, indicated no federal funds were currently available to reimburse the states for REAL ID costs incurred.

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<sup>1</sup> The joint report from the National Governors Association (NGA), the National Conference of State Legislatures (NCSL), and the American Association of Motor Vehicle Administrators (AAMVA) can be accessed at [www.nga.org](http://www.nga.org)

<sup>2</sup> Letters referenced in this section were a part of the *Report to the Legislature on the Status of the REAL ID Act, December 15, 2006*.

## **2006/2007 Expenditure of the \$18.8 Million Appropriation**

The DMV is dedicated to the effort of preparing Californians for the REAL ID Act. As the federally mandated compliance date of May 2008 and the anticipated release of the federal government regulations near, the DMV continues with the planning activities, information technology programming and infrastructure development necessary to prepare California for the REAL ID Act.

### ***Expenditure Categories***

The \$18.8 million DMV appropriation for planning and preparation activities is organized into four categories:

**1. Establish an organization that is responsible for all DMV activities related to REAL ID.**

The DMV has developed a REAL ID organization and hired a REAL ID Project Director to lead the organization in preparing for all aspects of policy, program, and project development in anticipation of the REAL ID Act regulations and implementation. The REAL ID Project Director and key DMV executives interface with high-level executives within California, the federal government, other states and national organizations. At the state level, meetings include the California Law Enforcement Telecommunications System User Group and the California REAL ID Steering Committee, while national meetings include American Association of Motor Vehicle Administrators conferences, the Federation of States<sup>3</sup> and meetings with the U.S. Department of Homeland Security.

**2. Prepare for the known components and impacts of REAL ID.**

To improve the position of the department in anticipation of the promulgated regulations, the DMV is undergoing development efforts of those known components of the REAL ID Act. One such component is the collection, capture, storage, and retrieval of the full legal name. The DMV is addressing this requirement through the modification of its existing infrastructure and development of a new foundational infrastructure that supports the expansion of the name field, improves queries and data exchange and develops an expandable system test infrastructure. This will:

- Enhance security for existing IT systems and data.
- Streamline future development of IT system requirements as a result of the promulgated REAL ID Act regulations.

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<sup>3</sup> The Federation of States (Federation) is a U.S. Department of Homeland Security sponsored group of states organized to develop proposals for REAL ID Act compliant IT systems and databases. The Federation is currently comprised of California, New York, Massachusetts, and Iowa.

### **3. Develop enhanced system and system support capacity to effectively prepare for future provisions of REAL ID as they are known.**

The age and complexity of the DMV's infrastructure and facilities' capacity limits its ability to comply with known components of the REAL ID Act. The DMV must:

- Enhance its IT systems and increase system capacity.
- Assess the facility needs in order to be able to accommodate these known requirements.

The DMV is performing an ongoing analysis of its facilities and IT infrastructure to ensure the needs of the REAL ID Act can be met and maintained.

### **4. Prepare California DMV for Change in Workloads.**

The DMV is proactively working to:

- Prepare a web site infrastructure to move appropriate transactions out of the field offices to the web, thereby freeing up office space and employee time that can be used for the projected increase in the customer workload that will occur as a result of the REAL ID Act.
- Build on the existing web infrastructure and online transactions for both business customers and the public.
- Position the DMV for future connectivity needs, such as ensuring that the enhancements allow for a more seamless integration of other databases (e.g., a modified Commercial Driver License Information System, a national database solution).

### ***Expenditure Breakdown***

The four categories, referenced in the previous section, are the basis used in enumerating the expenditures from July 1, 2006 through December 31, 2006 and expenditures anticipated for the remaining 2006/2007 fiscal year.

- **July 2006 through December 2006**  
Expenditures reported through December 31, 2006, for prescribed activities and corresponding milestones (accomplishments) as described in the four categories.
- **January 2007 through June 2007**  
Represents planned expenditure or encumbrance<sup>4</sup> of the \$18.8 million appropriation.

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<sup>4</sup> An encumbrance is a state financial obligation to pay for prospective goods or services received.



## Expenditures from July 1, 2006 through December 31, 2006

Funded Activities	Expenditure	Accomplishments
1. Establish an organization that is responsible for all DMV activities related to REAL ID.	\$1,677,500	<ul style="list-style-type: none"> <li>▪ Hired the DMV management personnel to ensure integration of departmental efforts.</li> <li>▪ Hired the DMV staff to perform analyses for:               <ul style="list-style-type: none"> <li>○ Securing future facility and other logistical needs.</li> <li>○ Streamlining current processes, policies, and procedures and integrate with new system functionality.</li> </ul> </li> <li>▪ Began the procurement process for the following consultant services:               <ul style="list-style-type: none"> <li>○ Privacy and Security consultant.</li> <li>○ Project consultant to aid in assessing and advising on strategic organizational readiness and overall project integration.</li> <li>○ Consultant to assess and advise on facility and office workflow.</li> <li>○ Consultant to review current DMV processes and provide an anti-fraud evaluation.</li> </ul> </li> </ul>
2. Prepare for the known components and impacts of REAL ID.	\$316,000	<ul style="list-style-type: none"> <li>▪ Hired the DMV IT staff to:               <ul style="list-style-type: none"> <li>○ Finalize the design and programming needs for expansion of the name field to accommodate the full legal name of DL/ID applicants (<i>Expansion of the Name Field Project</i>).</li> <li>○ Assess current network infrastructure.</li> </ul> </li> <li>▪ Procured an Independent Project Oversight Consultant to oversee the <i>Expansion of the Name Field Project</i>. The procurement was completed in October 2006.</li> </ul>

Funded Activities	Expenditure	Accomplishments
3. Develop enhanced system and system support capacity to effectively prepare for future provisions of REAL ID as they are known.	\$268,100	<ul style="list-style-type: none"> <li>▪ Hired the DMV IT staff to:               <ul style="list-style-type: none"> <li>○ Assess current and future system capacity needs.</li> <li>○ Develop an expandable system test infrastructure and increase system capacity for testing the expansion of the full legal name of DL/ID applicants.</li> <li>○ Plan IT network infrastructure upgrades.</li> </ul> </li> </ul>
4. Prepare California DMV for change in workloads.	\$503,700	<ul style="list-style-type: none"> <li>▪ Developed a Request for Proposal for <i>Web Site Infrastructure Integrator</i>, released October 2006.</li> <li>▪ Developed a logistical plan, including the facility lease cost, to accommodate new staff and consultants; completed October 2006.</li> <li>▪ Procured an Independent Project Oversight Consultant for the <i>Web Site Infrastructure Project</i>, completed October 2006.</li> </ul>
<b>Total Expenditures</b>	<b>\$2,765,300</b>	<b>July 1, 2006 through December 31, 2006</b>

## Expenditures Planned from January 1, 2007 through June 30, 2007

Funded Activities	Expenditure or Encumbrance	Planned Accomplishments
1. Establish an organization responsible for all DMV activities related to REAL ID.	\$830,800	<ul style="list-style-type: none"><li>▪ Through consultant services:<ul style="list-style-type: none"><li>○ Conduct ongoing security assessments, provide recommendations to protect customers' privacy and integrity of the DMV's data, and enhance security for existing systems.</li><li>○ Assist in the overall integration of departmental efforts, including developing organizational readiness strategies.</li><li>○ Provide guidance, best practices, and review the IT system security and privacy issues.</li><li>○ Analyze the current field office workflow, considering more efficient use of existing office space.</li><li>○ Evaluate current DL/ID card application processes and, using best practices, identify recommendations to reduce the opportunity for fraud.</li></ul></li></ul>
2. Prepare for the known components and impacts of REAL ID.	\$612,500	<ul style="list-style-type: none"><li>▪ Implement the IT infrastructure and database, supporting the expanded name field, and fully integrate this database into the existing production and test environments.</li><li>▪ Hire the additional DMV staff necessary to complete the <i>Name Field Expansion Project</i>.</li></ul>

Funded Activities	Expenditure or Encumbrance	Planned Accomplishments
3. Develop enhanced system and system support capacity to effectively prepare for future provisions of REAL ID as they are known.	\$616,500	<ul style="list-style-type: none"> <li>Design, develop, and test the new infrastructure, supporting production and system test processes, and the database for expanding the name field. This task will be completed by newly hired DMV staff.</li> <li>Assess the department's current IT network infrastructure and begin the planning process for the network and security enhancements to address future system requirements.</li> <li>Develop an expandable IT system test infrastructure to streamline all future programming and development efforts.</li> <li>Hire the DMV staff necessary to maintain the database/servers, test IT programs through the system test environment and ensure that the environment continues to operate effectively.</li> </ul>
4. Prepare California DMV for change in workloads.	\$13,491,600 <sup>5</sup>	<ul style="list-style-type: none"> <li>Secure a System Integrator to design and plan for the implementation of the <i>Web Site Infrastructure Project</i> in April 2007.</li> <li>Purchase the necessary hardware and software for the web site infrastructure in May 2007.</li> <li>Hire the additional DMV staff necessary to support the <i>Web Site Infrastructure Project</i> in April 2007.</li> </ul>
<b>Projected Encumbrances</b>	<b>\$15,551,400</b>	<b>January 1, 2007 through June 30, 2007</b>

<sup>5</sup> The cost of enhancing the web site infrastructure is off-set by a savings of 32.5 PY, equaling \$1,387,809, as shown in the *Department of Motor Vehicles May Revise 2006-2007 Support Budget*.

**Summary of Total Expenditures and Planned Encumbrances**

<b>Total Expenditures</b>	\$2,765,300	July 1, 2006 through December 31, 2006
<b>Projected Encumbrances</b>	\$15,551,400	January 1, 2007 through June 30, 2007
<b>TOTAL 2006/2007 EXPENDITURES and ENCUMBRANCES</b>	\$18,316,700	July 1, 2006 through June 30, 2007

**Total 2006/2007  
Appropriation**                      \$18,800,000

**Total Projected  
Unencumbered  
Funds**                                      \$483,300

## Conclusion

The DMV is engaged in the REAL ID Act planning and preparation activities as prescribed by the 2006 Budget Act. This report outlines the realized accomplishments and planned accomplishments in FY 2006/2007, which include:

- The establishment of a REAL ID Act organization and hiring of a REAL ID Project Director who is:
  - Responsible for the coordination and implementation of all REAL ID Act-related projects.
  - Represents California and the DMV at the state, national, and federal levels.
- The development of a foundational IT infrastructure that supports the expansion of the name field, improves queries and data exchange.<sup>6</sup>
- The development of an expandable IT system test infrastructure.
- The Web Site Infrastructure Project
  - Provides a means to authenticate the identity of the department's customers during online transactions and improves the availability and delivery of services, thereby reducing the traffic in field offices. This project enables the future availability of more non-driver license and identification card services that customers can use to complete the DMV business outside of the DMV field office.
  - Builds upon recent accomplishments.
    - *Change of Address on the Internet* - launched in September 2006, gives customers the option to change their address via Internet.
    - *Business Partner Automation Web Interface* – launched in September 2006, provides business partners the option to process transactions via Internet.
  - Positions the DMV for future connectivity needs, such as ensuring that the enhancements allow for a more seamless integration of other databases (e.g., a modified Commercial Driver License Information System, a national database solution).

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<sup>6</sup> The development of the detailed programming for name field expansion is dependent on the details of the federal REAL ID promulgated regulations.

Of the \$18.8 million appropriation received by the DMV for FY 2006/2007, the DMV has expended or will encumber approximately \$18.3 million. The projected unencumbered funds are due primarily to a delay in hiring the DMV staff as a result of the final federal regulations not being published as expected in the fall of 2006.

The U.S. Department of Homeland Security sent the draft regulations for the REAL ID Act to the federal Office of Management and Budget on January 2, 2007. The Office of Management and Budget has 90 days to perform an economic analysis and submit its findings and recommendations to the U.S. Department of Homeland Security. The U.S. Department of Homeland Security will then release the proposed regulations for public comment for a period of up to 60 days. U.S. Department of Homeland Security staff has stated that after the review and comment periods are completed, appropriate changes will be made to the regulations and the final rule making will be published sometime between July and October of 2007.

While the final federal regulations have not yet been promulgated, California will continue with its planning and preparation efforts in anticipation of the final regulations being published. Once the regulations are promulgated, the DMV will be in a better position to accurately quantify resource needs for fiscal year (FY) 2007/2008.